

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORTS
Years Ended December 31, 2004 and 2003**

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

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**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

OFFICIALS

(Before June 2004)

| <u>NAME OF OFFICIAL</u> | <u>OFFICIAL TITLE</u> | <u>TERM EXPIRES</u> |
|--------------------------------|------------------------------|----------------------------|
| Carl Patterson | Trustee | January 01, 2008 |
| Richard Hogan | Trustee | January 01, 2006 |
| Scott Akin | Trustee | January 01, 2010 |
| Robert Cline | General Manager | Indefinite |
| Loretta Wetzel | Office Manager | Indefinite |

(After June 2004)

| <u>NAME OF OFFICIAL</u> | <u>OFFICIAL TITLE</u> | <u>TERM EXPIRES</u> |
|--------------------------------|------------------------------|----------------------------|
| Carl Patterson | Trustee | January 01, 2008 |
| Richard Hogan | Trustee | January 01, 2006 |
| Scott Akin | Trustee | January 01, 2010 |
| Robert Cline | General Manager | Indefinite |
| Loretta Wetzel | Office Manager | Indefinite |



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Corning Municipal Utilities
Corning, Iowa

We have audited the accompanying general purpose financial statements, listed as exhibits in the table of contents of this report, of Corning Municipal Utilities, a component unit of the City of Corning, Iowa, for the years ended December 31, 2004 and 2003. These general purpose financial statements are the responsibility of the Corning Municipal Utilities' management. Our responsibility is to express an opinion on these general purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall general purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Corning Municipal Utilities as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated January 20, 2005, on our consideration of Corning Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. These reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 - 8 and 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of expressing an opinion on the general purpose financial statements taken as a whole. The supplemental information included in Schedules 1-6 is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in our audits of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Kiesling Associates LLP

West Des Moines, Iowa
January 20, 2005

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Corning Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. The narrative overview and analysis of the financial activities is for the year ended December 31, 2004. We encourage readers to consider this information in conjunction with the Utilities' financial statements which follow.

2004 Financial Highlights

- Revenues of the Utilities' enterprise activities increased 10%, or approximately \$216,800, from 2003 to 2004.
- Program expenses increased 8%, or approximately \$175,200, from 2003 to 2004. Water, electric and gas expenses increased approximately \$35,200, \$36,200 and \$103,800, respectively.
- The Utilities' net assets decreased 3%, or approximately \$93,800, from December 31, 2003, to December 31, 2004. Of this amount, the net assets of water, electric, gas and agency funds increased (decreased) by approximately \$(83,300), \$73,400, \$(104,300) and \$20,400, respectively.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utilities' financial statements.

The Financial Statements consist of a Balance Sheet, Statement of Income, Statement of Fund Equity and a Statement of Cash Flows. These provide information about the activities of the Utilities as a whole and present an overall view of the Utilities' finances.

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' budget for the year.

Other Supplementary Information provides detailed information about the separate funds. In addition, a schedule of plant for each fund provides details about the additions and retirements made during the year ended December 31, 2004.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

Financial Statements

One of the most important questions asked about the Utilities' finances is, "Is the Utility as a whole better off or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Income report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The balance sheet presents all of the Utilities' assets and liabilities, with the difference between the two reported as fund equity. Over time, increases or decreases in the Utilities' fund equity may serve as a useful indicator of whether the financial position of the Utilities is improving or deteriorating.

The Statement of Income presents information showing how the Utilities' fund equity changed during the most recent year. All changes in fund equity are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Balance Sheet and the Statement of Income report one kind of activity:

- Business type activities include the waterworks, electrical and gas departments. These activities are financed primarily by user charges.

Fund Financial Statements

The Utilities has two kinds of funds:

- (1) Proprietary funds account for the Utilities' Enterprise Funds. Proprietary funds account for most of the Utilities' basic services. These funds report services for which the Utilities charges customers for the service it provides. Proprietary funds are reported in the Balance Sheet and the Statement of Income. The Enterprise Funds include the Water, Electric and Gas Funds, each considered to be a major fund of the Utilities. The Utilities is responsible for ensuring the assets reported in these funds are used only for their intended purpose and by those to whom the assets belong.

The financial statements required for proprietary funds include a balance sheet, statement of income and changes in fund equity and a statement of cash flows.

- (2) Fiduciary funds account for the Utilities' Agency Funds. These are funds through which the Utilities accounts for billing and collection of the City of Corning's garbage and sewer fees.

The Utilities is responsible for ensuring assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The Utilities excludes these activities from the financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary fund equity and a statement of changes in fiduciary fund equity.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS

As noted earlier, fund equity may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the fund equity for business type activities.

| Fund Equity | |
|---|---------------------|
| December 31, 2004 | |
| Current and other assets | \$ 2,037,936 |
| Capital assets | <u>7,492,988</u> |
| Total assets | <u>9,530,924</u> |
| Long-term liabilities | 5,467,821 |
| Other liabilities | <u>617,711</u> |
| Total liabilities | <u>6,085,532</u> |
| Fund equity: | |
| Invested in capital assets, net of related debt | 3,790,908 |
| Restricted | 56,949 |
| Unrestricted | <u>(402,465)</u> |
| Total fund equity | <u>\$ 3,445,392</u> |

Net assets of business type activities decreased from 2003 by approximately \$93,800, or 3%. The largest portion of the Utilities' fund equity is invested in capital assets (e.g., land, buildings, infrastructure and equipment), less related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted fund equity represents resources that are subject to withdrawal restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted fund equity, the part of fund equity that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is approximately \$(402,465) at the end of the year. The deficit is due to increased depreciation and interest expenses resulting from the construction of the new water treatment facility.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

INDIVIDUAL MAJOR FUND ANALYSIS

Proprietary Fund Highlights

The Water Fund, which accounts for the operation and maintenance of the Utilities' water system, ended 2004 with a \$1,061,530 fund equity balance compared to the prior year ending fund equity balance of \$1,144,808.

The Electric Fund, which accounts for the operation and maintenance of the Utilities' electrical distribution and generation systems, ended 2004 with a \$1,813,736 fund equity balance compared to the prior year ending fund equity balance of \$1,740,308.

The Gas Fund, which accounts for the operation and maintenance of the Utilities' natural gas system, ended 2004 with a \$513,177 fund equity balance compared to the prior year ending fund equity balance of \$617,469. The following are the major reasons for the changes in fund balances in the major proprietary funds from the prior year.

- The Water Fund saw increased maintenance and operations costs due to a new water treatment facility being in operation.
- The Electric Fund increased customer rates as of October 15, 2004, in an effort to fund future capital projects planned for 2005 and 2006.
- The Gas Fund saw a large increase in the cost of purchased energy in comparison with the rates being charged to customers. These rates have not been changed since September 15, 1994.

Agency Fund Highlights

The Garbage Fund, which accounts for the billing and collection of the City of Corning's garbage collection system, ended 2004 with a \$46,729 fund equity balance compared to the prior year ending fund equity balance of \$27,592.

The Sewer Fund, which accounts for the billing and collection of the City of Corning's sewer system, ended 2004 with a \$10,220 fund equity balance compared to the prior year ending fund equity balance of \$9,020.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Utilities did not amend its budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Utilities' capital assets include land, buildings and improvements, equipment, water distribution systems, electrical distribution systems, gas distributions systems and other infrastructure. Capital assets for business type activities totaled \$7,492,988 (net of accumulated depreciation) at December 31, 2004. See Note 2 to the financial statements for more information about the Utilities' capital assets.

The major capital outlays for business type activities during the year included engineering costs and installation related to a new cooling tower and the purchase of a new pickup.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Long-Term Debt

At December 31, 2004, the Utilities had \$3,702,080 in total long-term debt outstanding for business type activities. Other obligations include compensated absences and unearned revenue. Additional information about the Utilities' long-term debt is presented in Note 7 to the financial statements.

ECONOMIC FACTORS BEARING ON THE UTILITIES' FUTURE

Several economic factors affected decisions made by the Utilities in setting its 2005 budget. Some of these factors included the plans for future replacement of the electrical generation plant, increased capacity needs for customers and rate increases planned for the future.

CONTACTING THE UTILITIES' MANAGEMENT

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the Utilities' finances and operating activities. If you have any questions or require additional information please contact the General Manager, Corning Municipal Utilities, 501 Benton Avenue, Corning, Iowa 50841.

FINANCIAL STATEMENTS

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Exhibit A

**BALANCE SHEETS
December 31, 2004 and 2003**

| <u>ASSETS</u> | <u>2004</u> | <u>2003</u> |
|--|---------------------|---------------------|
| ELECTRIC PLANT IN SERVICE | \$ 2,768,332 | \$ 2,757,072 |
| Less accumulated depreciation | <u>2,211,384</u> | <u>2,125,414</u> |
| | 556,948 | 631,658 |
| Electric plant under construction | <u>205,706</u> | <u>-</u> |
| | <u>762,654</u> | <u>631,658</u> |
| WATER PLANT IN SERVICE | 7,214,631 | 7,227,157 |
| Less accumulated depreciation | <u>611,222</u> | <u>443,828</u> |
| | <u>6,603,409</u> | <u>6,783,329</u> |
| GAS PLANT IN SERVICE | 707,944 | 704,270 |
| Less accumulated depreciation | <u>581,019</u> | <u>560,905</u> |
| | <u>126,925</u> | <u>143,365</u> |
| RESTRICTED ASSETS | | |
| Cash-security deposits | 32,623 | 29,133 |
| Water plant project | <u>1,151</u> | <u>1,142</u> |
| | <u>33,774</u> | <u>30,275</u> |
| NONCURRENT ASSETS | | |
| Unamortized debt issuance costs | 71,685 | 75,901 |
| Intangibles | <u>45,000</u> | <u>45,000</u> |
| | <u>116,685</u> | <u>120,901</u> |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 562,877 | 656,385 |
| Temporary investments | 785,000 | 914,999 |
| Customer accounts receivable | 6,447 | 3,924 |
| Unbilled revenues | 397,492 | 357,833 |
| Other accounts receivable | 11,168 | 11,539 |
| Plant materials and operating supplies | 106,796 | 114,638 |
| Prepaid insurance | 17,195 | 16,842 |
| Prepaid taxes | <u>502</u> | <u>-</u> |
| | <u>1,887,477</u> | <u>2,076,160</u> |
| TOTAL ASSETS | <u>\$ 9,530,924</u> | <u>\$ 9,785,688</u> |

The accompanying notes are an integral part of these financial statements.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Exhibit A

**BALANCE SHEETS
December 31, 2004 and 2003**

| | <u>2004</u> | <u>2003</u> |
|---|-------------------------|-------------------------|
| <u>LIABILITIES AND FUND EQUITY</u> | | |
| FUND EQUITY | | |
| Invested in capital assets, net of related debt | \$ 3,790,908 | \$ 3,702,272 |
| Fund balance-agency fund (restricted) | 56,949 | 36,612 |
| Unrestricted | <u>(402,465)</u> | <u>(199,687)</u> |
| | <u>3,445,392</u> | <u>3,539,197</u> |
| LONG-TERM LIABILITIES | | |
| Compensated absences | 61,923 | 54,616 |
| Unearned revenue | 1,861,818 | 1,971,337 |
| Long-term debt | <u>3,544,080</u> | <u>3,702,080</u> |
| | <u>5,467,821</u> | <u>5,728,033</u> |
| CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS | | |
| Customer deposits | <u>32,623</u> | <u>29,133</u> |
| CURRENT LIABILITIES PAYABLE FROM CURRENT ASSETS | | |
| Accounts payable | 317,569 | 225,441 |
| Accrued taxes | - | 365 |
| Unearned revenue | 109,519 | 109,519 |
| Current portion of long-term debt | <u>158,000</u> | <u>154,000</u> |
| | <u>585,088</u> | <u>489,325</u> |
| TOTAL LIABILITIES AND FUND EQUITY | <u>\$ 9,530,924</u> | <u>\$ 9,785,688</u> |

The accompanying notes are an integral part of these financial statements.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Exhibit B

**STATEMENT OF INCOME
Years Ended December 31, 2004 and 2003**

| | <u>2004</u> | <u>2003</u> |
|--|---------------------|---------------------|
| OPERATING REVENUES | | |
| Electric service | \$ 943,058 | \$ 793,880 |
| Water service | 487,253 | 481,760 |
| Gas service | 901,141 | 838,969 |
| SIRWA revenue | 109,519 | 109,519 |
| | <u>2,440,971</u> | <u>2,224,128</u> |
| OPERATING EXPENSES | | |
| Purchased energy | 1,247,610 | 1,083,491 |
| Operations and maintenance | 498,802 | 481,466 |
| Depreciation | 286,233 | 306,153 |
| Customer accounts expense | 70,200 | 69,592 |
| Administrative and general | 285,047 | 272,217 |
| General taxes | 7,647 | 7,359 |
| | <u>2,395,539</u> | <u>2,220,278</u> |
| OPERATING INCOME | <u>45,432</u> | <u>3,850</u> |
| OTHER INCOME (EXPENSE) | | |
| Income from merchandising and custom work, net | 762 | 813 |
| Interest income | 12,113 | 19,413 |
| Other income charges | (56,284) | (48,455) |
| | <u>(43,409)</u> | <u>(28,229)</u> |
| INCOME (LOSS) BEFORE FIXED CHARGES | <u>2,023</u> | <u>(24,379)</u> |
| FIXED CHARGES | | |
| Interest | <u>116,165</u> | <u>121,240</u> |
| NET LOSS | <u>\$ (114,142)</u> | <u>\$ (145,619)</u> |

The accompanying notes are an integral part of these financial statements.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Exhibit C

**STATEMENT OF FUND EQUITY
Years Ended December 31, 2004 and 2003**

| | Invested in Capital Assets, Net of Related Debt | Fund Balance Agency Funds | Unrestricted | Total |
|------------------------------|--|------------------------------------|---------------------|---------------------|
| Balance at December 31, 2002 | \$ 3,784,104 | \$ 36,688 | \$ (135,900) | \$ 3,684,892 |
| Add: | | | | |
| Net income, enterprise funds | (81,832) | - | (63,787) | (145,619) |
| Net change in agency funds | <u>-</u> | <u>(76)</u> | <u>-</u> | <u>(76)</u> |
| Balance at December 31, 2003 | 3,702,272 | 36,612 | (199,687) | 3,539,197 |
| Add: | | | | |
| Net income, enterprise funds | 88,636 | - | (202,778) | (114,142) |
| Net change in agency funds | <u>-</u> | <u>20,337</u> | <u>-</u> | <u>20,337</u> |
| Balance at December 31, 2004 | <u>\$ 3,790,908</u> | <u>\$ 56,949</u> | <u>\$ (402,465)</u> | <u>\$ 3,445,392</u> |

The accompanying notes are an integral part of these financial statements.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Exhibit D

**STATEMENT OF CASH FLOWS
Years Ended December 31, 2004 and 2003**

| | <u>2004</u> | <u>2003</u> |
|--|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | \$ (114,142) | \$ (145,619) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Sewer and garbage billings less amount remitted to City | 20,337 | (76) |
| Depreciation and amortization | 295,430 | 314,252 |
| Unearned revenues | (109,519) | (109,519) |
| Changes in assets and liabilities: | | |
| (Increase) Decrease in: | | |
| Receivables | (41,812) | (18,526) |
| Prepayments | (855) | 2,721 |
| Materials and supplies | 7,842 | 8,664 |
| Unamortized debt issuance costs | 4,216 | 4,217 |
| Increase (Decrease) in: | | |
| Accounts payable and deposits | 33,566 | 16,249 |
| Compensated absences | 7,307 | 7,448 |
| Accrued liabilities, taxes and other current liabilities | (365) | (2,579) |
| Net cash provided by operating activities | <u>102,005</u> | <u>77,232</u> |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | |
| Change in restricted assets | <u>(3,499)</u> | <u>212,627</u> |
| Net cash provided by (used in) non-capital financing activities | <u>(3,499)</u> | <u>212,627</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital expenditures | (146,062) | (289,416) |
| Cost of removal, net of salvage | (21,952) | 1,249 |
| Repayment of long-term debt | <u>(154,000)</u> | <u>(149,000)</u> |
| Net cash used in capital and related financing activities | <u>(322,014)</u> | <u>(437,167)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of temporary investments | 1,650,000 | 1,755,000 |
| Purchase of Mid-American customers | - | (45,000) |
| Purchase of temporary investments | <u>(1,520,000)</u> | <u>(1,755,000)</u> |
| Net cash provided by (used in) investing activities | <u>130,000</u> | <u>(45,000)</u> |
| Net Decrease in Cash and Cash Equivalents | (93,508) | (192,308) |
| Cash and Cash Equivalents at Beginning of Year | <u>656,385</u> | <u>848,693</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 562,877</u> | <u>\$ 656,385</u> |

The accompanying notes are an integral part of these financial statements.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Exhibit E

**STATEMENT OF INDEBTEDNESS
Year Ended December 31, 2004**

| <u>Obligation</u> | <u>Date of Issue</u> | <u>Interest Rates</u> | <u>Amount Originally Issued</u> | <u>Balance Beginning of Year</u> | <u>Issued During Year</u> | <u>Redeemed During Year</u> | <u>Balance End of Year</u> | <u>Interest Paid</u> | <u>Interest Due and Unpaid</u> |
|-------------------|--------------------------|---------------------------|---|--|-----------------------------------|-------------------------------------|------------------------------------|--------------------------|--|
| Revenue Bonds | | | | | | | | | |
| Water | 4/16/2002 | 3.00 % | <u>\$ 4,005,080</u> | <u>\$ 3,856,080</u> | <u>\$ -</u> | <u>\$ (154,000)</u> | <u>\$ 3,702,080</u> | <u>\$ 113,372</u> | <u>\$ -</u> |

The accompanying notes are an integral part of these financial statements.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Corning Municipal Utilities is a component unit of the City of Corning whose funds are reported under separate cover utilizing a fiscal year ending June 30. The City of Corning is a political subdivision of the State of Iowa located in Adams County. It was first incorporated in 1854 and operates under the Home Rule provisions of the Constitution of Iowa. The Utilities board of trustees operates the City Utilities by the authority of Chapters 384 and 388 of the Code of Iowa. Corning Municipal Utilities provides water, electric and gas services on a user charge basis to the general public and other governmental units within Adams County, Iowa.

Basis of Presentation

The accounting policies of Corning Municipal Utilities conform to accounting principles generally accepted in the United States of America. Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities.

Government-wide Financial Statements - The Balance Sheet and the Statement of Income report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The Balance Sheet presents the Utilities' nonfiduciary assets and liabilities, with the difference reported as fund equity. Fund equity is reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted fund equity results when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted fund equity consists of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Income demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

The accounting records of Corning Municipal Utilities are maintained in accordance with the particular uniform system of accounts for each separate utility function. The electric department uses the system as prescribed by the Federal Energy Regulatory Commission, while the water and gas departments' system is published by the National Association of Regulatory Utility Commissioners.

Reporting Entity

The financial statements include enterprise and agency funds of Corning Municipal Utilities, a component unit of the City of Corning, Iowa.

Fund Accounting

The accounts of the Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund balances, revenues and expenditures or expenses. The various funds and their designated purposes are as follows:

Proprietary Funds

Enterprise Funds - Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges. The Enterprise Funds include electric, water and gas operations.

Fiduciary Funds

Agency Funds - Agency Funds are used to account for assets held by the Utilities as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and other funds. Agency Funds are custodial in nature, assets equal liabilities, and do not involve measurement of results of operations. The Agency Funds include sewer and garbage service monies collected and held by the Utilities as an agent for the City of Corning, Iowa, which operates these facilities.

Measurement Focus and Basis of Accounting

Proprietary Funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

In reporting the financial activity of its proprietary funds, the Utilities applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities' Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The assets and liabilities of the Agency Funds are accounted for using the modified accrual basis of accounting.

Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash equivalents.

Inventory

Inventory is valued at the lower of cost or market with cost determined by the average cost method.

Long-Lived Assets

The Utilities would provide for impairment losses on long-lived assets when no longer cost of service regulated, indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Based on current conditions, management does not believe any of its long-lived assets are impaired.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Utility Plant

Utility plant in service is based partially on an original cost study prepared by Kiesling Associates LLP and existing plant records prepared by the Utilities in 1981. Subsequent additions are recorded at original cost, including the capitalized costs of certain payroll taxes and employee benefits. Renewals and betterment of units of property are charged to utility plant in service. When utility plant is retired, its cost is removed from the asset account and charged against accumulated depreciation, together with removal cost less any salvage realized. Repairs and renewals of minor items of property are included in maintenance expense. No gains or losses are recognized in connection with routine retirements of depreciable property.

Depreciation of utility plant is computed on the straight-line method by application of rates, based upon the estimated service lives of the various classes of depreciable property. These estimates are subject to change in the near term.

Revenue Recognition

The Utilities recognizes revenues related to the Enterprise Funds when earned regardless of the period in which they are billed.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended December 31, 2004, disbursements did not exceed the budgeted amount.

NOTE 2. DEPRECIATION

The provisions for depreciation for 2004 and 2003 are \$295,430 and \$314,252, respectively, of which \$9,188 and \$8,099, respectively, were distributed through a clearing account. The depreciation provision less the amount cleared was charged to expense against the following operations:

| | <u>2004</u> | <u>2003</u> |
|----------|-------------------|-------------------|
| Electric | \$ 82,666 | \$ 84,450 |
| Water | 184,832 | 197,259 |
| Gas | <u>18,735</u> | <u>24,444</u> |
| | <u>\$ 286,233</u> | <u>\$ 306,153</u> |

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003**

NOTE 2. DEPRECIATION (Continued)

At December 31, 2004 and 2003, utility plant in service included the following major classifications:

| | <u>2004</u> | <u>2003</u> |
|-------------------------------------|----------------------|----------------------|
| Electric Plant in Service: | | |
| Production Plant | \$ 1,241,746 | \$ 1,239,565 |
| Transmission Plant | 102,024 | 102,024 |
| Distribution Plant | 1,234,069 | 1,226,116 |
| General Plant | <u>190,493</u> | <u>189,367</u> |
| Subtotal | <u>2,768,332</u> | <u>2,757,072</u> |
| Water Plant in Service: | | |
| Source of Supply and Pumping Plant | 5,582,474 | 5,617,474 |
| Distribution Plant | 1,427,050 | 1,422,548 |
| General Plant | <u>205,107</u> | <u>187,135</u> |
| Subtotal | <u>7,214,631</u> | <u>7,227,157</u> |
| Gas Plant in Service: | | |
| Transmission and Distribution Plant | 578,229 | 575,678 |
| General Plant | <u>129,715</u> | <u>128,592</u> |
| Subtotal | <u>707,944</u> | <u>704,270</u> |
| Total utility plant in service | <u>\$ 10,690,907</u> | <u>\$ 10,688,499</u> |

The individual rates applied to the average cost of the several classifications of depreciable utility plant produced the following composite depreciation rates for the years ended December 31, 2004 and 2003:

| | <u>2004</u> | <u>2003</u> |
|----------|-------------|-------------|
| Electric | 3.07 % | 3.18 % |
| Water | 2.61 % | 2.64 % |
| Gas | 2.65 % | 3.49 % |

NOTE 3. EMPLOYEE BENEFITS

Corning Municipal Utilities contributes to the Iowa Public Employees' Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003**

NOTE 3. EMPLOYEE BENEFITS (Continued)

Plan members are required to contribute 3.70% of their annual covered salary and the Utilities is required to contribute 5.75% of annual covered payroll except for law enforcement employees, in which case the percentages are 6.20% and 9.29%, respectively. Contribution requirements are established by State statute. The Utilities' contribution to IPERS for the years ended December 31, 2004 and 2003, were \$19,005 and \$14,052, respectively, equal to the required contributions for each year.

NOTE 4. DEPOSITS AND INVESTMENTS

The Utilities' deposits at December 31, 2004, were entirely covered by federal depository insurance or by the Iowa State Sinking Fund for banks and savings associations in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities are authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities' investments are categorized to give an indication at the level of risk assumed by the Utilities at year-end. The Utilities' investments are all category 1, which means that the investments are all insured or registered or the securities are held by the Utilities or its agents in the Utilities' name.

The Utilities had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

Investments are stated at fair value.

The Utilities' deposits and investments at December 31, 2004, are shown below:

| | |
|--|--------------------------------|
| Change and petty cash fund | \$ 300 |
| Checking accounts | 226,351 |
| Certificates of deposit | 940,000 |
| Savings accounts | <u>215,000</u> |
| Total cash, cash equivalents and temporary investments | <u><u>\$ 1,381,651</u></u> |

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003**

NOTE 5. INTANGIBLES

During 2003, the Utilities entered into an agreement with MidAmerican Energy to purchase six customers at a cost of \$45,000.

The Company annually assesses its recorded balances of goodwill and indefinite lived intangible assets for impairment. As a result, the Company determined no impairment needed to be recorded for the years ended December 31, 2004 and 2003.

NOTE 6. DEFERRED COMPENSATION PLAN

The Utilities offers its employees a deferred compensation plan as allowed by Internal Revenue Code Section 457. The plan allows the Utilities' employees to defer a portion of their current salary until future years. The employees become eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights, are, until made available to the participant or other beneficiary, solely the property and rights of the Utilities, without being restricted to the provision of benefits under the plan, subject only to the claims of the Utilities' general creditors.

The Utilities is responsible for due care in managing the investments and the participant or beneficiary assumes the risk of loss from decreases in the value of plan assets.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003**

NOTE 7. BONDS PAYABLE

Annual debt service requirements to maturity for water revenue bonds are as follows:

| Year Ending December 31 | Revenue Bonds Water Issued April 16, 2002 | |
|----------------------------|---|---------------------|
| | Principal | Interest |
| | | |
| 2005 | \$ 158,000 | \$ 108,692 |
| 2006 | 163,000 | 103,877 |
| 2007 | 168,000 | 98,912 |
| 2008 | 173,000 | 93,797 |
| 2009 | 178,000 | 88,532 |
| 2010 | 183,000 | 83,117 |
| 2011 | 189,000 | 77,537 |
| 2012 | 195,000 | 71,777 |
| 2013 | 200,000 | 65,852 |
| 2014 | 206,000 | 59,762 |
| 2015 | 213,000 | 53,477 |
| 2016 | 219,000 | 46,997 |
| 2017 | 226,000 | 40,322 |
| 2018 | 232,000 | 33,452 |
| 2019 | 239,000 | 26,387 |
| 2020 | 247,000 | 19,097 |
| 2021 | 254,000 | 11,582 |
| 2022 | 259,080 | 3,893 |
| | <u>\$ 3,702,080</u> | <u>\$ 1,087,062</u> |

The water revenue bonds were issued for the purpose of defraying the cost of constructing a new water plant facility. The bonds are payable solely from the income and proceeds of the Water Fund in accordance with the bond agreement. The proceeds of the water revenue bonds shall be expended only for purposes which are consistent with the bond agreement. The bonds are not a general obligation of the Utilities, however, the debt is subject to the constitutional debt limitations of the Utilities.

The resolutions providing for the debt issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future net revenues of the water fund activity and the bond holders hold a lien on the future earnings of the fund.
- (b) The proceeds shall be used for the sole purpose of constructing a new water treatment facility as approved in the project plan.

The Utilities is not required to establish a sinking or reserve account by the water revenue bond resolution.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003**

NOTE 7. BONDS PAYABLE (Continued)

Of the funds received for the Water Revenue Bonds, \$2,920 remained unadvanced as of December 31, 2004.

NOTE 8. COMPENSATED ABSENCES

The Utilities' employees accumulate vacation and sick leave hours for subsequent use or for payment upon retirement. Upon retirement, the Utilities pay up to 160 hours of accumulated vacation and up to 720 hours of accumulated sick leave. Any vacation and sick leave accumulated is allowed to be taken while in the employment of the Utilities.

As of December 31, 2004 and 2003, the liability for accrued vacation and sick leave is \$61,923 and \$54,616, respectively. The amount expected to be paid from current resources is not significant.

NOTE 9. UNEARNED REVENUE

In conjunction with the construction of the new water treatment facility, the Utilities received \$2,190,375 from Southwestern Iowa Rural Water Association (SIRWA) related to future usage of the new water plant facility. SIRWA does not possess any ownership rights in the water plant facility. Therefore, the payment received from them will be recognized as revenue over the period of repayment of the bonds used to purchase the new facility (20 years).

The unearned revenue will be recognized as follows:

| | |
|-----------|------------|
| 2005 | \$ 109,519 |
| 2006 | 109,519 |
| 2007 | 109,519 |
| 2008 | 109,519 |
| 2009 | 109,519 |
| 2010-2022 | 1,423,742 |

NOTE 10. RISK MANAGEMENT

Corning Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance coverage. The Utilities assume liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11. CONCENTRATION OF CREDIT RISK

The Utilities grants credit to its customers, all of whom are located in the municipal service area.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003**

NOTE 12. RELATED PARTY TRANSACTIONS

The Utilities has business transactions totaling \$48,299 between the Utilities and Utilities' Board members.

NOTE 13. COMMITMENTS AND CONTINGENCIES

The Utilities has entered into a purchase commitment to purchase two new generators for the electrical plant. The contract with Caterpillar, Inc. has a bid amount of approximately \$1,000,000. The total estimated cost of the project is approximately \$1,000,000 and will be completed during 2005 and 2006.

NOTE 14. SUPPLEMENTAL CASH FLOW INFORMATION

Accounts payable includes \$96,717 and \$34,665 at December 31, 2004 and 2003, respectively, relating to utility plant and equipment additions placed in service during 2004 and 2003.

REQUIRED SUPPLEMENTARY INFORMATION

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**Comparison of Receipts, Disbursements and Changes in Balances -
Actual to Budget (Cash Basis)
Year Ended December 31, 2004**

| | GAAP Basis | | | Cash Basis | |
|---------------------------------------|---------------------|------------------|---------------------|---------------------|------------------|
| | Financial | | Adjusted to | Budget [1] | Variance |
| | Statements | Adjustments | Cash Basis | | |
| Receipts | | | | | |
| Charges for services | \$ 2,440,971 | \$ (258,087) | \$ 2,182,884 | \$ 2,190,000 | \$ (7,116) |
| Use of money and property | 12,113 | (1,054) | 11,059 | 17,000 | (5,941) |
| Miscellaneous | 762 | 1,783 | 2,545 | 16,600 | (14,055) |
| | <u>2,453,846</u> | <u>(257,358)</u> | <u>2,196,488</u> | <u>2,223,600</u> | <u>(27,112)</u> |
| Disbursements | | | | | |
| Cash | 2,272,558 | 79,145 | 2,351,703 | 2,655,200 | (303,497) |
| Noncash | 295,430 | (295,430) | - | N/A | - |
| | <u>2,567,988</u> | <u>(216,285)</u> | <u>2,351,703</u> | <u>2,655,200</u> | <u>(303,497)</u> |
| Excess of receipts over disbursements | (114,142) | (41,073) | (155,215) | (431,600) | 276,385 |
| Add (Reduce): | | | | | |
| Operating activities cash flow | 195,810 | 44,204 | 240,014 | N/A | |
| Salvage, net cost of removal | (21,952) | - | (21,952) | N/A | |
| Capital expenditures | (146,062) | - | (146,062) | N/A [3] | |
| Purchase of Mid-American customers | - | - | - | N/A [3] | |
| Debt financing activities | (154,000) | - | (154,000) | N/A [3] | |
| Net payment of agency funds | 20,337 | (3,131) | 17,206 | N/A [3] | |
| Net funds increase (decrease) | <u>(220,009)</u> | <u>-</u> | <u>(220,009)</u> | <u>(431,600)</u> | |
| Beginning funds January 1, 2004 | <u>1,601,660</u> | <u>-</u> | <u>1,601,660</u> | <u>1,538,000</u> | [2] |
| Ending funds December 31, 2004 | <u>\$ 1,381,651</u> | <u>\$ -</u> | <u>\$ 1,381,651</u> | <u>\$ 1,106,400</u> | [2] |

[1] Home and Community Environment

[2] Adjusted amounts from budget to reflect actual beginning of the year cash and investment balances and expected end of the year balances, accordingly.

[3] Non-program expenditures

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY REPORTING
Year Ended December 31, 2004**

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 9 major classes of disbursements known as functions, not by fund or fund type. These 9 functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there were no budget amendments.

OTHER SUPPLEMENTARY INFORMATION

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Schedule 1

**BALANCE SHEET BY DEPARTMENT
December 31, 2004**

| | ASSETS | | | | | |
|--|---------------------|---------------------|-------------------|------------------|------------------|---------------------|
| | Electric | Water | Gas | Sewer | Garbage | Total |
| ELECTRIC PLANT IN SERVICE | \$ 2,768,332 | | | | | \$ 2,768,332 |
| Less accumulated depreciation | <u>2,211,384</u> | | | | | <u>2,211,384</u> |
| | 556,948 | | | | | 556,948 |
| Electric plant under construction | <u>205,706</u> | | | | | <u>205,706</u> |
| | <u>762,654</u> | | | | | <u>762,654</u> |
| WATER PLANT IN SERVICE | | \$ 7,214,631 | | | | 7,214,631 |
| Less accumulated depreciation | | <u>611,222</u> | | | | <u>611,222</u> |
| | | <u>6,603,409</u> | | | | <u>6,603,409</u> |
| GAS PLANT IN SERVICE | | | \$ 707,944 | | | 707,944 |
| Less accumulated depreciation | | | <u>581,019</u> | | | <u>581,019</u> |
| | | | <u>126,925</u> | | | <u>126,925</u> |
| RESTRICTED ASSETS | | | | | | |
| Cash-security deposits | 11,135 | 3,385 | 18,103 | | | 32,623 |
| Water plant project | <u>-</u> | <u>1,151</u> | <u>-</u> | | | <u>1,151</u> |
| | <u>11,135</u> | <u>4,536</u> | <u>18,103</u> | | | <u>33,774</u> |
| NONCURRENT ASSETS | | | | | | |
| Unamortized debt issuance costs | - | 71,685 | - | | | 71,685 |
| Intangibles | <u>45,000</u> | <u>-</u> | <u>-</u> | | | <u>45,000</u> |
| | <u>45,000</u> | <u>71,685</u> | <u>-</u> | | | <u>116,685</u> |
| CURRENT ASSETS | | | | | | |
| Cash and cash equivalents | 321,398 | 101,202 | 92,025 | \$ 39,627 | \$ 8,625 | 562,877 |
| Temporary investments | 585,000 | - | 200,000 | - | - | 785,000 |
| Customer accounts receivable | 6,138 | 5,243 | (13,631) | 7,102 | 1,595 | 6,447 |
| Unbilled revenues | 145,097 | 57,128 | 195,267 | - | - | 397,492 |
| Interfund receivable (payable) | 83,505 | (129,755) | 46,250 | - | - | - |
| Other accounts receivable | 4,947 | 620 | 5,601 | - | - | 11,168 |
| Plant materials and operating supplies | 30,832 | 43,488 | 32,476 | - | - | 106,796 |
| Prepaid insurance | 9,631 | 3,331 | 4,233 | - | - | 17,195 |
| Prepaid taxes | <u>-</u> | <u>409</u> | <u>93</u> | <u>-</u> | <u>-</u> | <u>502</u> |
| | <u>1,186,548</u> | <u>81,666</u> | <u>562,314</u> | <u>46,729</u> | <u>10,220</u> | <u>1,887,477</u> |
| TOTAL ASSETS | \$ <u>2,005,337</u> | \$ <u>6,761,296</u> | \$ <u>707,342</u> | \$ <u>46,729</u> | \$ <u>10,220</u> | \$ <u>9,530,924</u> |

See Accompanying Independent Auditors' Report

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Schedule 1

**BALANCE SHEET BY DEPARTMENT
December 31, 2004**

LIABILITIES AND FUND EQUITY

| | Electric | Water | Gas | Sewer | Garbage | Total |
|---|---------------------|---------------------|-------------------|------------------|------------------|---------------------|
| FUND EQUITY | | | | | | |
| Invested in capital assets, net of related debt | \$ 762,654 | \$ 2,901,329 | \$ 126,925 | \$ - | \$ - | \$ 3,790,908 |
| Fund balance-agency fund | - | - | - | 46,729 | 10,220 | 56,949 |
| Unrestricted | <u>1,051,082</u> | <u>(1,839,799)</u> | <u>386,252</u> | <u>-</u> | <u>-</u> | <u>(402,465)</u> |
| | <u>1,813,736</u> | <u>1,061,530</u> | <u>513,177</u> | <u>46,729</u> | <u>10,220</u> | <u>3,445,392</u> |
| LONG-TERM LIABILITIES | | | | | | |
| Compensated absences | 30,961 | 15,481 | 15,481 | | | 61,923 |
| Unearned revenue | - | 1,861,818 | - | | | 1,861,818 |
| Long-term debt | - | 3,544,080 | - | | | 3,544,080 |
| | <u>30,961</u> | <u>5,421,379</u> | <u>15,481</u> | | | <u>5,467,821</u> |
| CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS | | | | | | |
| Customer deposits | <u>11,135</u> | <u>3,385</u> | <u>18,103</u> | | | <u>32,623</u> |
| CURRENT LIABILITIES PAYABLE FROM CURRENT ASSETS | | | | | | |
| Accounts payable | 149,505 | 7,483 | 160,581 | | | 317,569 |
| Unearned revenue | - | 109,519 | - | | | 109,519 |
| Current portion of long-term debt | - | 158,000 | - | | | 158,000 |
| | <u>149,505</u> | <u>275,002</u> | <u>160,581</u> | | | <u>585,088</u> |
| TOTAL LIABILITIES AND FUND EQUITY | <u>\$ 2,005,337</u> | <u>\$ 6,761,296</u> | <u>\$ 707,342</u> | <u>\$ 46,729</u> | <u>\$ 10,220</u> | <u>\$ 9,530,924</u> |

See Accompanying Independent Auditors' Report

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Schedule 2

**SCHEDULE OF INCOME AND FUND EQUITY BY DEPARTMENT
Year Ended December 31, 2004**

| | Electric | Water | Gas | Total (Memorandum Only) |
|--|---------------------|---------------------|-------------------|-------------------------------|
| OPERATING REVENUES | | | | |
| Residential sales | \$ 388,494 | \$ 348,446 | \$ 415,905 | \$ 1,152,845 |
| Commercial sales | 287,780 | 87,929 | 286,333 | 662,042 |
| Public authority sales | 254,264 | 43,506 | 195,579 | 493,349 |
| SIRWA revenue | - | 109,519 | - | 109,519 |
| Other miscellaneous | 12,520 | 7,372 | 3,324 | 23,216 |
| | <u>943,058</u> | <u>596,772</u> | <u>901,141</u> | <u>2,440,971</u> |
| OPERATING EXPENSES | | | | |
| Purchased energy | 445,360 | - | 802,250 | 1,247,610 |
| Operations and maintenance | 184,602 | 259,677 | 54,523 | 498,802 |
| Depreciation | 82,666 | 184,832 | 18,735 | 286,233 |
| Meter reading | 11,704 | 9,676 | 8,834 | 30,214 |
| Customer records and collections | 10,788 | 5,057 | 12,192 | 28,037 |
| Customer rebates | 5,689 | - | 6,260 | 11,949 |
| Total customer accounts expense | <u>740,809</u> | <u>459,242</u> | <u>902,794</u> | <u>2,102,845</u> |
| Administrative and general salaries | 59,827 | 32,965 | 57,145 | 149,937 |
| Office supplies and expense | 5,253 | 4,091 | 3,937 | 13,281 |
| Outside services employed | 7,769 | 19,660 | 14,542 | 41,971 |
| General insurance | 17,409 | 14,845 | 5,863 | 38,117 |
| General administration | 17,340 | 17,130 | 7,271 | 41,741 |
| Total general and administrative expense | <u>107,598</u> | <u>88,691</u> | <u>88,758</u> | <u>285,047</u> |
| Use tax | 1,337 | - | 322 | 1,659 |
| Property tax | 5,988 | - | - | 5,988 |
| Total general taxes | <u>7,325</u> | <u>-</u> | <u>322</u> | <u>7,647</u> |
| | <u>855,732</u> | <u>547,933</u> | <u>991,874</u> | <u>2,395,539</u> |
| OPERATING INCOME (LOSS) | <u>87,326</u> | <u>48,839</u> | <u>(90,733)</u> | <u>45,432</u> |
| OTHER INCOME (EXPENSE) | | | | |
| Income from merchandising and custom work, net | 191 | 323 | 248 | 762 |
| Interest income | 8,374 | 908 | 2,831 | 12,113 |
| Other income charges | (21,811) | (19,361) | (15,112) | (56,284) |
| | <u>(13,246)</u> | <u>(18,130)</u> | <u>(12,033)</u> | <u>(43,409)</u> |
| INCOME (LOSS) BEFORE FIXED CHARGES | <u>74,080</u> | <u>30,709</u> | <u>(102,766)</u> | <u>2,023</u> |
| FIXED CHARGES | | | | |
| Interest | <u>652</u> | <u>113,987</u> | <u>1,526</u> | <u>116,165</u> |
| NET INCOME (LOSS) | <u>73,428</u> | <u>(83,278)</u> | <u>(104,292)</u> | <u>(114,142)</u> |
| FUND EQUITY, JANUARY 1, 2004 | <u>1,740,308</u> | <u>1,144,808</u> | <u>617,469</u> | <u>3,502,585</u> |
| FUND EQUITY, DECEMBER 31, 2004 | <u>\$ 1,813,736</u> | <u>\$ 1,061,530</u> | <u>\$ 513,177</u> | <u>\$ 3,388,443</u> |

See Accompanying Independent Auditors' Report

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Schedule 3

**SCHEDULE OF AGENCY FUND NET ASSETS
December 31, 2004**

| | Agency Funds 12/31/2003 | Billed | Collected | Paid | Agency Funds 12/31/2004 |
|---------------------------------|----------------------------|-------------------|-------------------|---------------------|----------------------------|
| <u>ASSETS</u> | | | | | |
| Non-pooled cash: | | | | | |
| Sewer rental | \$ 23,346 | \$ - | \$ 351,048 | \$ (334,767) | \$ 39,627 |
| Garbage collection | <u>7,700</u> | <u>-</u> | <u>97,582</u> | <u>(96,657)</u> | <u>8,625</u> |
| Total cash | <u>31,046</u> | <u>-</u> | <u>448,630</u> | <u>(431,424)</u> | <u>48,252</u> |
| Receivables: | | | | | |
| Sewer rental | 4,246 | 354,923 | (352,067) | - | 7,102 |
| Garbage collection | <u>1,320</u> | <u>98,137</u> | <u>(97,862)</u> | <u>-</u> | <u>1,595</u> |
| Total receivables | <u>5,566</u> | <u>453,060</u> | <u>(449,929)</u> | <u>-</u> | <u>8,697</u> |
| Net assets held in agency funds | <u>\$ 36,612</u> | <u>\$ 453,060</u> | <u>\$ (1,299)</u> | <u>\$ (431,424)</u> | <u>\$ 56,949</u> |

See Accompanying Independent Auditors' Report

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Schedule 4

**SCHEDULE OF ELECTRIC PLANT
Year Ended December 31, 2004**

| | Balance December 31, 2003 | Additions | Retirements | Balance December 31, 2004 |
|---|---------------------------------|------------------|-------------|---------------------------------|
| Production Plant: | | | | |
| Land | \$ 66,520 | \$ - | \$ - | \$ 66,520 |
| Structures and improvements | 222,479 | - | - | 222,479 |
| Fuel holders, producers and accessories | 8,988 | 2,181 | - | 11,169 |
| Generators | 853,291 | - | - | 853,291 |
| Accessory electric equipment | 88,287 | - | - | 88,287 |
| | <u>1,239,565</u> | <u>2,181</u> | <u>-</u> | <u>1,241,746</u> |
| Transmission Plant: | | | | |
| Station equipment | 71,428 | - | - | 71,428 |
| Poles and fixtures | 22,532 | - | - | 22,532 |
| Overhead conductors and devices | 8,064 | - | - | 8,064 |
| | <u>102,024</u> | <u>-</u> | <u>-</u> | <u>102,024</u> |
| Distribution Plant: | | | | |
| Poles, towers and fixtures | 172,439 | - | - | 172,439 |
| Overhead conductors and devices | 326,840 | - | - | 326,840 |
| Underground conduit | 82,376 | 1,049 | - | 83,425 |
| Underground conductors and devices | 131,014 | - | - | 131,014 |
| Line transformers | 177,519 | 3,076 | - | 180,595 |
| Services | 170,682 | 2,706 | - | 173,388 |
| Meters | 111,933 | 1,122 | - | 113,055 |
| Street lighting and signal system | 53,313 | - | - | 53,313 |
| | <u>1,226,116</u> | <u>7,953</u> | <u>-</u> | <u>1,234,069</u> |
| General Plant: | | | | |
| Office furniture and equipment | 28,519 | - | - | 28,519 |
| Transportation equipment | 110,349 | - | - | 110,349 |
| Tools, shop and garage equipment | 23,397 | 568 | - | 23,965 |
| Laboratory equipment | 3,252 | - | - | 3,252 |
| Power operated equipment | 17,838 | 479 | - | 18,317 |
| Communication equipment | 6,012 | 79 | - | 6,091 |
| | <u>189,367</u> | <u>1,126</u> | <u>-</u> | <u>190,493</u> |
| | <u>\$ 2,757,072</u> | <u>\$ 11,260</u> | <u>\$ -</u> | <u>\$ 2,768,332</u> |

See Accompanying Independent Auditors' Report

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Schedule 5

**SCHEDULE OF WATER PLANT
Year Ended December 31, 2004**

| | Balance December 31, 2003 | Additions | Retirements | Balance December 31, 2004 |
|--|---------------------------------|--------------------|-------------|---------------------------------|
| Source of Supply and Pumping Plant: | | | | |
| Land and land rights | \$ 142,438 | \$ - | \$ - | \$ 142,438 |
| Structures and improvements | 4,021,457 | (35,000) | - | 3,986,457 |
| Collection and impounding reservoir | 76,493 | - | - | 76,493 |
| Lakes, rivers and other intakes | 58,949 | - | - | 58,949 |
| Supply mains | 303,128 | - | - | 303,128 |
| Electronic pumping equipment | 354,606 | - | - | 354,606 |
| Pumping and treatment equipment | 660,403 | - | - | 660,403 |
| | <u>5,617,474</u> | <u>(35,000)</u> | <u>-</u> | <u>5,582,474</u> |
| Distribution Plant: | | | | |
| Distribution system and standpipes | 559,408 | - | - | 559,408 |
| Transmission and distribution mains | 709,547 | 622 | - | 710,169 |
| Meters and customer premise equipment | 114,460 | 3,880 | - | 118,340 |
| Hydrants | 39,133 | - | - | 39,133 |
| | <u>1,422,548</u> | <u>4,502</u> | <u>-</u> | <u>1,427,050</u> |
| General Plant: | | | | |
| Furniture and office equipment | 44,365 | 110 | - | 44,475 |
| Transportation equipment | 32,440 | 16,250 | - | 48,690 |
| Work equipment | 6,653 | 37 | - | 6,690 |
| Laboratory equipment | 23,787 | 120 | - | 23,907 |
| Power operated equipment | 78,805 | - | - | 78,805 |
| Communication equipment | 1,085 | 1,455 | - | 2,540 |
| | <u>187,135</u> | <u>17,972</u> | <u>-</u> | <u>205,107</u> |
| | <u>\$ 7,227,157</u> | <u>\$ (12,526)</u> | <u>\$ -</u> | <u>\$ 7,214,631</u> |

See Accompanying Independent Auditors' Report

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Schedule 6

**SCHEDULE OF GAS PLANT
Year Ended December 31, 2004**

| | Balance December 31, 2003 | Additions | Retirements | Balance December 31, 2004 |
|--|---------------------------------|-----------------|-------------|---------------------------------|
| Transmission and Distribution Plant: | | | | |
| Transmission mains | \$ 117,087 | \$ - | \$ - | \$ 117,087 |
| Structures and improvements | 14,105 | - | - | 14,105 |
| Distribution mains | 309,404 | - | - | 309,404 |
| Measure and regulating station equipment | 35,224 | 2,059 | - | 37,283 |
| Meters | 99,858 | 492 | - | 100,350 |
| | <u>575,678</u> | <u>2,551</u> | <u>-</u> | <u>578,229</u> |
| General Plant: | | | | |
| Work equipment | 88,242 | 1,123 | - | 89,365 |
| Furniture and office equipment | 26,831 | - | - | 26,831 |
| Transportation equipment | 13,519 | - | - | 13,519 |
| | <u>128,592</u> | <u>1,123</u> | <u>-</u> | <u>129,715</u> |
| | <u>\$ 704,270</u> | <u>\$ 3,674</u> | <u>\$ -</u> | <u>\$ 707,944</u> |

See Accompanying Independent Auditors' Report



REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Trustees
Corning Municipal Utilities
Corning, Iowa

We have audited the consolidated financial statements of Corning Municipal Utilities as of and for the year ended December 31, 2004, and have issued our report thereon dated January 20, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Corning Municipal Utilities' general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of general purpose financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2004, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items III-J-04 and III-L-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Corning Municipal Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Utilities' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable conditions have been resolved except for item II-A-03.

This report, a public record by law, is intended solely for the information and use of the officials and employees of Corning Municipal Utilities and other parties to whom the Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Corning Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Kiesling Associates LLP

West Des Moines, Iowa
January 20, 2005

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**Schedule of Findings
December 31, 2004**

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. This situation is not unusual for utilities your size.

Recommendation - In this situation, compensating controls may be available through strong trustee control over financial transactions and continuous monitoring of the Utilities' operations. We realize that with a limited number of office employees, segregation of duties is difficult. However, operating procedures should be reviewed to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**Schedule of Findings
December 31, 2004**

Part III: Other Findings Related to Statutory Reporting:

- III-A-04 Official Depositories - A resolution naming official depositories has been approved by the Utilities. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2004.
- III-B-04 Certified Budget - Disbursements during the year ended December 31, 2004, were within the amounts budgeted in the Home and Community Environment Program. Chapter 384.20 of the Code of Iowa state in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.
- III-C-04 Questionable Disbursements - No expenditures that we believe may not meet the requirements of public purpose as defined in Attorney General's opinion dated April 29, 1979, were noted.
- III-D-04 Travel Expense - No expenditures of the Utilities' money for travel expenses of spouses of the Utilities' officials and/or employees were noted.
- III-E-04 Basis of Accounting - Corning Municipal Utilities uses a uniform accounting system and follows the accrual basis of accounting.
- III-F-04 Fixed Asset Record - A detailed record of fixed assets is currently being maintained.
- III-G-04 Bond Coverage - Surety bond coverage of the Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-H-04 Trustee Minutes - No transactions were found that we believe should have been approved in the minutes but were not. The minutes record was examined and appeared to give a condensed, accurate account of business transacted by the Trustees and were published in accordance with the requirements of the Code of Iowa.
- III-I-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**Schedule of Findings
December 31, 2004**

- III-J-04 Business Transactions - The business transactions, which came to our attention during the course of our audit between the Utilities and the Utilities' officials and/or employees, are detailed as follows:

| <u>Name, Title, and Business & Connection</u> | <u>Description</u> | <u>Total Transactions</u> |
|---|------------------------|-------------------------------|
| Robert Cline (General Manager), Owner, Hardware Hank | Supplies and tools | \$ 988 |
| Scott Akin (Trustee), Owner, Akin Building Center | Materials and supplies | <u>47,311</u> |
| | | <u>\$ 48,299</u> |

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Robert Cline (General Manager) and Scott Akin (Trustee) do not appear to represent conflicts of interest since their respective stores are the only stores in town that carry certain supplies.

We recommend that the Utilities should consult legal counsel regarding this possible conflict of interest. Management stated that they would consult legal counsel regarding this matter. This response is deemed acceptable.

- III-K-04 Revenue Notes - The Utility has set aside funds as required by the water revenue bond resolution.
- III-L-04 RFP Process - The audit was not awarded through the RFP process as required by the Code of Iowa for contracts entered into after May 31, 1989.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

STAFF

This audit was performed by:

Steven P. Harms, CPA, Partner
Jessica R. Richter, CPA, Supervising Senior Accountant
Julie K. Maeder, Accountant